

# PERAC AUDIT REPORT



## Holyoke Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*  
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

May 23, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Holyoke Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# Holyoke Retirement System

## **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

#### **1. Investment Approvals**

The Holyoke Retirement Board funded two investments with Lazard Asset Management, LLC and Fidelity Management Trust Company prior to receiving notice from PERAC's Investment Director that all required documents were submitted.

**Recommendation:** The Board must comply with PERAC's Investment Regulations, 840 CMR 16.08 which states in part: "The selection and hiring of investment managers, consultants, custodian banks and other investment related service providers by all retirement boards shall be subject to a competitive process which satisfies the boards' fiduciary duty and meets the requirements of M.G.L. c. 32 and 840 CMR. Prior to retention of the vendor, Boards shall notify the Commission that such a process, as well as the provisions of M.G.L. c. 32 and 840 CMR, was adhered to." Written acknowledgement from PERAC is required before an investment can be funded. PERAC memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulation Issues" provides explicit guidance on this issue.

#### **Board Response:**

The Board has always been in compliance with 840 CMR 16.08 and will continue to do so. In this isolated case, the issue was timing. The Board would also like to note that this occurred in 2006, not within the purview of this audit.

#### **2. Cash**

In reviewing the cash accounts, it was determined that the Holyoke Treasurer's office did not provide a complete reconciliation of the retiree payroll account. Two outstanding checks and miscellaneous adjustments had not been processed in a timely manner. The Treasurer's Office did not respond to requests for an explanation on a timely basis.

**Recommendation:** The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliation duties. The Treasurer must be instructed to provide appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis.

#### **Board Response:**

The Board is aware that the City Treasurer is the custodian of our funds. The City Treasurer has been instructed in writing on many occasions prior to this audit to provide timely reconciliations. The Board will continue to remind the Treasurer of his obligation. PERAC should explicitly state that this is not a weakness in the accounting procedures of the Board; it is an issue which lies entirely within the domain of the City Treasurer.

#### **Final Determination:**

***PERAC audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# Holyoke Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003  
AND ENDING DECEMBER 31, 2005**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Cash	\$699,673	\$278,081	\$2,068,672
Short Term Investments	2,274,616	5,227,049	3,331,788
Equities	0	1,820	0
Pooled Domestic Equity Funds	91,971,293	88,025,375	79,570,886
Pooled International Equity Funds	9,489,070	6,732,552	5,590,765
Pooled Domestic Fixed Income Funds	51,691,602	50,322,217	49,220,520
Pooled Real Estate Funds	3,279,508	3,443,989	6,016,945
Interest Due and Accrued	3,830	1,153	487
Accounts Receivable	1,529,019	1,453,440	1,485,961
Accounts Payable	(13,581)	(18,826)	(33,921)
<b>TOTAL</b>	<b><u>\$160,925,030</u></b>	<b><u>\$155,466,851</u></b>	<b><u>\$147,252,103</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$38,712,063	\$36,044,676	\$35,182,280
Annuity Reserve Fund	16,531,659	17,091,784	16,106,288
Pension Fund	6,827,941	8,244,559	13,323,863
Military Service Fund	57,716	36,338	16,217
Expense Fund	0	0	0
Pension Reserve Fund	98,795,650	94,049,493	82,623,455
<b>TOTAL</b>	<b><u>\$160,925,030</u></b>	<b><u>\$155,466,851</u></b>	<b><u>\$147,252,103</u></b>

## Holyoke Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003  
AND ENDING DECEMBER 31, 2005**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
<b>Beginning Balance (2003)</b>	<b>\$35,232,015</b>	<b>\$13,471,798</b>	<b>\$16,793,084</b>	<b>\$7,221</b>	<b>\$0</b>	<b>\$57,691,098</b>	<b>\$123,195,216</b>
Receipts	4,698,024	424,723	9,772,206	8,996	936,729	24,940,267	<b>40,780,945</b>
Interfund Transfers	(4,031,889)	4,039,798	0	0	0	(7,910)	<b>0</b>
Disbursements	(715,871)	(1,830,031)	(13,241,427)	0	(936,729)	0	<b>(16,724,059)</b>
<b>Ending Balance (2003)</b>	<b>35,182,280</b>	<b>16,106,288</b>	<b>13,323,863</b>	<b>16,217</b>	<b>0</b>	<b>82,623,455</b>	<b>147,252,103</b>
Receipts	4,268,610	509,470	9,982,477	20,121	1,076,730	11,446,208	<b>27,303,616</b>
Interfund Transfers	(2,473,721)	2,493,891	0	0	0	(20,170)	<b>0</b>
Disbursements	(932,492)	(2,017,865)	(15,061,781)	0	(1,076,730)	0	<b>(19,088,868)</b>
<b>Ending Balance (2004)</b>	<b>36,044,676</b>	<b>17,091,784</b>	<b>8,244,559</b>	<b>36,338</b>	<b>0</b>	<b>94,049,493</b>	<b>155,466,851</b>
Receipts	4,509,916	502,793	11,176,663	21,378	1,118,658	7,515,464	<b>24,844,871</b>
Interfund Transfers	(1,050,585)	1,003,517	2,816,375	0	0	(2,769,307)	<b>0</b>
Disbursements	(791,945)	(2,066,434)	(15,409,656)	0	(1,118,658)	0	<b>(19,386,692)</b>
<b>Ending Balance (2005)</b>	<b><u>\$38,712,063</u></b>	<b><u>\$16,531,659</u></b>	<b><u>\$6,827,941</u></b>	<b><u>\$57,716</u></b>	<b><u>\$0</u></b>	<b><u>\$98,795,650</u></b>	<b><u>\$160,925,030</u></b>

# Holyoke Retirement System

## STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003  
AND ENDING DECEMBER 31, 2005**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,133,596	\$3,972,357	\$3,953,816
Transfers from other Systems	22,902	27,870	234,131
Member Make Up Payments and Redeposits	56,013	51,765	132,695
Member Payments from Rollovers	87,976	24,367	49,415
Investment Income Credited to Member Accounts	<u>209,429</u>	<u>192,250</u>	<u>327,968</u>
<b>Sub Total</b>	<b><u>4,509,916</u></b>	<b><u>4,268,610</u></b>	<b><u>4,698,024</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>502,793</u>	<u>509,470</u>	<u>424,723</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	143,545	109,630	99,987
Received from Commonwealth for COLA and Survivor Benefits	971,445	399,237	699,868
Pension Fund Appropriation	<u>10,061,673</u>	<u>9,473,610</u>	<u>8,972,351</u>
<b>Sub Total</b>	<b><u>11,176,663</u></b>	<b><u>9,982,477</u></b>	<b><u>9,772,206</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	21,153	20,031	8,924
Investment Income Credited Military Service Fund	<u>225</u>	<u>91</u>	<u>72</u>
<b>Sub Total</b>	<b><u>21,378</u></b>	<b><u>20,121</u></b>	<b><u>8,996</u></b>
<b>Expense Fund:</b>			
Investment Income Credited to Expense Fund	<u>1,118,658</u>	<u>1,076,730</u>	<u>936,729</u>
<b>Sub Total</b>	<b><u>1,118,658</u></b>	<b><u>1,076,730</u></b>	<b><u>936,729</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	97,399	143,708	77,624
Interest Not Refunded	6,193	6,920	7,255
Miscellaneous Income	6,012	0	2,424
Excess Investment Income	<u>7,405,859</u>	<u>11,295,579</u>	<u>24,852,964</u>
<b>Sub Total</b>	<b><u>7,515,464</u></b>	<b><u>11,446,208</u></b>	<b><u>24,940,267</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$24,844,871</u></b>	<b><u>\$27,303,616</u></b>	<b><u>\$40,780,945</u></b>

# Holyoke Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003  
AND ENDING DECEMBER 31, 2005**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>Annuity Savings Fund:</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Refunds to Members	\$610,419	\$830,874	\$661,100
Transfers to other Systems	<u>181,526</u>	<u>101,618</u>	<u>54,771</u>
<b>Sub Total</b>	<b><u>791,945</u></b>	<b><u>932,492</u></b>	<b><u>715,871</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,040,612	1,987,594	1,701,750
Option B Refunds	<u>25,823</u>	<u>30,271</u>	<u>128,281</u>
<b>Sub Total</b>	<b><u>2,066,434</u></b>	<b><u>2,017,865</u></b>	<b><u>1,830,031</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	11,940,882	11,595,317	9,990,873
Survivorship Payments	313,551	330,151	349,382
Ordinary Disability Payments	138,254	149,065	110,065
Accidental Disability Payments	1,722,438	1,718,570	1,631,501
Accidental Death Payments	819,181	800,743	796,625
Section 101 Benefits	138,813	135,957	130,359
3 (8) (c) Reimbursements to Other Systems	336,538	331,978	232,621
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>15,409,656</u></b>	<b><u>15,061,781</u></b>	<b><u>13,241,427</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	12,000	12,000	12,000
Salaries	172,534	185,500	191,994
Legal Expenses	16,425	2,519	0
Fiduciary Insurance	10,800	11,340	5,438
Service Contracts	21,432	12,692	11,881
Travel Expenses	26,255	20,055	12,826
Administrative Expenses	13,565	22,696	34,902
Management Fees	736,042	709,767	568,046
Custodial Fees	52,854	50,562	40,820
Consultant Fees	<u>56,750</u>	<u>49,600</u>	<u>58,822</u>
<b>Sub Total</b>	<b><u>1,118,658</u></b>	<b><u>1,076,730</u></b>	<b><u>936,729</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$19,386,692</u></b>	<b><u>\$19,088,868</u></b>	<b><u>\$16,724,059</u></b>



# Holyoke Retirement System

## INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003  
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Investment Income Received From:</b>			
Cash	42,106	26,128	93,700
Short Term Investments	87,081	24,142	20,674
Fixed Income	0	0	0
Equities	0	0	118,854
Pooled or Mutual Funds	3,933,024	4,356,509	3,022,311
Commission Recapture	0	184	3,925
<b>TOTAL INVESTMENT INCOME</b>	<b><u>4,062,210</u></b>	<b><u>4,406,962</u></b>	<b><u>3,259,464</u></b>
<b>Plus:</b>			
Realized Gains	5,218,176	3,415,041	2,276,488
Unrealized Gains	18,584,043	19,573,022	31,769,981
Interest Due and Accrued on Fixed Income Securities - Current Year	3,830	1,153	487
<b>Sub Total</b>	<b><u>23,806,050</u></b>	<b><u>22,989,216</u></b>	<b><u>34,046,956</u></b>
<b>Less:</b>			
Realized Losses	(686,042)	(1,768,345)	(4,784,528)
Unrealized Losses	(17,944,103)	(12,553,226)	(5,978,559)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(1,153)	(487)	(878)
<b>Sub Total</b>	<b><u>(18,631,297)</u></b>	<b><u>(14,322,058)</u></b>	<b><u>(10,763,965)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>9,236,963</u></b>	<b><u>13,074,120</u></b>	<b><u>26,542,456</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	209,429	192,250	327,968
Annuity Reserve Fund	502,793	509,470	424,723
Military Service Fund	225	91	72
Expense Fund	1,118,658	1,076,730	936,729
<b>TOTAL INCOME REQUIRED</b>	<b><u>1,831,104</u></b>	<b><u>1,778,541</u></b>	<b><u>1,689,492</u></b>
Net Investment Income	<u>9,236,963</u>	<u>13,074,120</u>	<u>26,542,456</u>
Less: Total Income Required	<u>1,831,104</u>	<u>1,778,541</u>	<u>1,689,492</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$7,405,859</u></b>	<b><u>\$11,295,579</u></b>	<b><u>\$24,852,964</u></b>

## Holyoke Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE PERIOD ENDING DECEMBER 31, 2005**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$699,673	0.44%	100
Short Term	2,274,616	1.43%	100
Fixed Income		0.00%	40 - 80
Equities		0.00%	40
Pooled Short Term Funds		0.00%	
Pooled Domestic Equity Funds	91,971,293	57.70%	
Pooled International Equity Funds	9,489,070	5.95%	
Pooled Global Equity Funds		0.00%	
Pooled Domestic Fixed Income Funds	51,691,602	32.43%	
Pooled International Fixed Income Funds		0.00%	
Pooled Global Fixed Income Funds		0.00%	
Pooled Alternative Investment Funds		0.00%	
Pooled Real Estate Funds	3,279,508	2.06%	
Pooled Domestic Balanced Funds		0.00%	
Pooled International Balanced Funds		0.00%	
PRIT Cash Fund		0.00%	
PRIT Core Fund		0.00%	100
<b>GRAND TOTALS</b>	<b><u>\$159,405,761</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Holyoke Retirement System was 6.21%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Holyoke Retirement System averaged 5.04%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Holyoke Retirement System was 10.76%.

## **Holyoke Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

The Holyoke Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

##### December 6, 1985

20.03(1) Cash and short-term investments with a maturity of one year or less shall not exceed 50% of the total portfolio valued at market.

##### March 30, 1989

20.04(6) Equities of foreign corporations, including American Depository Receipts, listed on a United States stock exchange, provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent.

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

##### March 1, 1990

20.04(7) The portion of the portfolio that is invested in the Freedom Capital Environmental Fund and the Freedom Capital Global Fund may include investments in international equity and fixed income investments which are traded on foreign exchanges.

##### June 14, 1995

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

## **Holyoke Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONT.)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

##### **840 CMR 21.00: Prohibited Investments**

Future Contracts other than are as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

##### **October 24, 1996**

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 1% of the total market value of the portfolio may be invested in non-rated bonds or bonds with a minimum quality rating below Baa or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 1% of the total market value of the portfolio may be invested in non-rated bonds or bonds with a minimum quality rating below Baa or equivalent.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) The retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) Such personnel retain authority in the decision making process, and

(c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

##### **August 8, 2001**

In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its large cap equity mandate with Freedom Capital Management by transferring the value portion of the account from a separately managed fund to a commingled fund, the Freedom Large Cap Value Fund. There is no change in investment strategy or benchmark and the modification is expected to result in lower costs to the Holyoke Retirement Board.

##### **January 11, 2002**

In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its fixed income mandate with Freedom Capital Management. First, the account is changing from a separate account to a commingled fund. Second, the mandate is being modified from Core to Core Plus. The commingled fund is the Freedom Capital Core Plus Fixed Income fund.

## **Holyoke Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONT.)**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

July 18, 2003

In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to make a modest modification to its domestic equity management mandates with Freedom Capital Management. This investment in Freedom Capital Management's Style Weighted Concentrated Fund will allow the Board to meet its asset allocation target for large cap equities.

September 22, 2003

In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to make a minor modification to its large cap growth equity account with Freedom Capital Management. This mandate is switching from a separate account to a commingled fund, the Freedom Large Cap Growth Fund.

# **Holyoke Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all Holyoke Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

## **Holyoke Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

# Holyoke Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Holyoke Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

#### March 11, 1986

1. Unless otherwise specified employees must work twenty (20) hours per week to be eligible for membership.
2. Employees of the Holyoke Geriatric Authority must work six (6) months before they are eligible for membership. Once they become members they may purchase this other service.  
(Repealed January 3, 1992)
3. Employees that have worked under the CETA program or Teacher Aides are not eligible for membership in the Holyoke Retirement System; however, if the employee gains employment in any other qualified position; they may buy back this other time.  
Section 90C and 90D adjustments shall be granted as of July 1 of each year in lieu of COLA's

#### October 7, 1986

"Teacher Aides who work a minimum of Twenty (20) hours per week and are under the age of 65, shall become members of the Holyoke Retirement System."



## **Holyoke Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

##### July 1, 1997

Any full-time employee, who is a member of the Holyoke Contributory Retirement System, is eligible to purchase previous seasonal, temporary or provisional service rendered for any governmental unit belonging to the Holyoke Retirement System.

##### October 1, 2002

1. A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked, provided the member works the number of hours required by the position.
2. A member employed on a part-time basis who becomes full-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.
3. A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

## Holyoke Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Brian G. Smith

Appointed Member: Russell J. McNiff                      Term Expires: Indefinite

Elected Member: John T. McCarthy                      Term Expires: 6/1/07

Elected Member: Daniel R. Owens                      Term Expires: 6/30/08

Appointed Member: Raymond Depelteau                      Term Expires: 12/31/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the System with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$50,000,000
Elected Member:	)	Travelers, AIG and Arch
Appointed Member:	)	
Staff Employee:	)	

# Holyoke Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the The Segal Group as of January 1, 2005.

The actuarial liability for active members was	\$100,095,800
The actuarial liability for inactive members was	1,235,770
The actuarial liability for retired members was	146,993,246
The total actuarial liability was	248,324,816
System assets as of that date were (actuarial value)	154,649,632
The unfunded actuarial liability was	\$93,675,184
 The ratio of system's assets to total actuarial liability was	 62.28%
As of that date the total covered employee payroll was	\$47,514,976

The normal cost for employees on that date was	8.59% of payroll
The normal cost for the employer was	3.88% of payroll

The principal actuarial assumptions used in the valuation are as follows:

<b>Investment Return:</b>	8.25% per annum
<b>Rate of Salary Increase:</b>	Varies by calendar year and group

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2005	\$154,649,632	\$248,324,816	\$93,675,184	62.28%	\$47,514,976	197.15%
1/1/2003	147,834,259	218,195,543	70,361,284	67.75%	\$45,373,511	155.07%
1/1/2001	140,947,847	188,431,479	47,483,632	74.80%	\$41,123,979	115.46%
1/1/1999	124,672,189	180,215,921	55,543,732	69.18%	\$41,606,346	133.50%

## Holyoke Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Superannuation	32	33	39	25	39	31	24	69	59	18
Ordinary Disability	1	1	0	0	1	2	0	0	2	1
Accidental Disability	2	1	5	2	1	4	6	4	5	2
<b>Total Retirements</b>	<b>35</b>	<b>35</b>	<b>44</b>	<b>27</b>	<b>41</b>	<b>37</b>	<b>30</b>	<b>73</b>	<b>66</b>	<b>21</b>
Total Retirees, Beneficiaries and Survivors	852	847	866	861	861	872	875	913	947	931
<b>Total Active Members</b>	<b>1,287</b>	<b>1,445</b>	<b>1,403</b>	<b>1,366</b>	<b>1,407</b>	<b>1,415</b>	<b>1,429</b>	<b>1,332</b>	<b>1,329</b>	<b>1,305</b>
<b>Pension Payments</b>										
Superannuation	\$6,471,377	\$6,960,211	\$7,234,515	\$7,785,225	\$8,300,341	\$8,701,598	\$9,243,121	\$9,990,873	\$11,595,317	\$11,940,882
Survivor/Beneficiary Payments	236,326	238,826	235,227	274,822	279,215	295,685	353,185	349,382	330,151	313,551
Ordinary Disability	100,368	99,529	88,857	88,929	91,477	114,201	128,543	110,065	149,065	138,254
Accidental Disability	1,253,754	1,210,830	1,307,355	1,312,278	1,284,414	1,433,083	1,523,112	1,631,501	1,718,570	1,722,438
Other	813,880	646,455	690,025	725,346	804,343	882,571	947,306	926,985	936,700	957,994
<b>Total Payments for Year</b>	<b>\$8,875,705</b>	<b>\$9,155,851</b>	<b>\$9,555,979</b>	<b>\$10,186,600</b>	<b>\$10,759,790</b>	<b>\$11,427,138</b>	<b>\$12,195,268</b>	<b>\$13,008,806</b>	<b>\$14,729,803</b>	<b>\$15,073,119</b>

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